

**MINUTES OF SILICON VALLEY CLEAN WATER
REGULAR MEETING – MARCH 8, 2018
8:00 a.m.**

ITEM 1

CALL TO ORDER

Commission Chair Seybert called the meeting to order at 8:00 a.m.

ITEM 2

ROLL CALL - Commissioners Duly Appointed by Each Agency

Council Member John Seybert, Redwood City – Chair
Council Member Warren Lieberman, PhD., Belmont– Vice Chair
Mayor Robert Grassilli, San Carlos – Secretary
Board Member George Otte, P.E., West Bay Sanitary District

Staff, Consultants and Visitors Present

Christine C. Fitzgerald, SVCW Legal Counsel
Daniel T. Child, SVCW Manager
Teresa Herrera, SVCW Assistant Manager / Chief Engineering Officer
Matt Anderson, SVCW Chief Financial Officer / Administration Manager
Monte Hamamoto, SVCW Chief Operating Officer
Arvind Akela, SVCW Senior Engineer
Kim Hackett, SVCW Engineering Director
Bruce Burnworth, SVCW Senior Engineer
Eric Hansen, SVCW Senior Engineer
Robert Huffstutler, SVCW Operations Director
Ilana Schmidt, SVCW Administrative Assistant
E.J. Shalaby, DNS Strategic Partners, LLC
Tara Peterson, City of San Carlos
Molly Flowerday, City of Redwood City
Bill Tanner, Tanner Pacific, Inc.
Mark Minkowski, Kennedy/Jenks
Allan Lacson, Customer Relations Manager, Energy Solutions
Chester Livingston, Supervisor, Energy Solutions and Service
Art AcAuley, Manager, Large Industrial Segment, Business Energy Solutions

ITEM 3

PLEDGE OF ALLEGIANCE

Teresa Herrera, SVCW's Assistant Manager/Chief Engineering Officer, led those attending the meeting in the recital of the Pledge of Allegiance.

ITEM 4
PUBLIC COMMENT

A. Presentation by Pacific Gas and Electric of Grant Check for Power Savings Program Participation

Alan Lacson, SVCW's Customer Relations Manager from PG&E gave a brief presentation before awarding SVCW and the Commission with a check for the Power Savings Program in the amount of \$273,623.94. He explained the trials and tribulations to get the high efficiency aeration basin project to where it is today. He proceeded to thank Arvind Akela, SVCW's Senior Engineer for the critical role he played in implementation and development of the program. He continued on to thank SVCW's Commission, Management, O&M Staff and SVCW consultants Chuck Fenton and Kip Edgley for their efforts and is looking forward to future partnerships together to reduce overall costs and maximize efficiency.

Commissioner Seybert congratulated SVCW on the amount of savings, adding the more SVCW can develop these partnerships, the more good it does for the public and in this day and age, partnerships are essential for survival.

ITEM 5A
SAFETY MOMENT

Mr. Child shared that March 4 – March 11 is National Sleep Awareness Week. He emphasized the importance of sleep and signs and symptoms that can occur from not getting the proper amount.

ITEM 5B
MANAGER'S REPORT

August Commission Meeting: There is a scheduling conflict with the CASA Conference and Mr. Child proposed moving the meeting to late August. He will follow up after the meeting to confirm the Commissioner's availability.

Form 700: Mr. Child reminded the Commissioners that their forms are due to the county by April 2nd.

Bay Area Regional Partnerships for Sustainable Water: Part 1 Potable Reuse Conference: Mr. Child passed out information related to the conference that Commissioner Lieberman and Commissioner Otte are planning to attend.

ITEM 5C
FINANCIAL REPORTS

There were no questions on the financial reports.

ITEM 5F

RESCU Program Design-Build Project Status Update

Ms. Herrera provided an update on the Front of Plant and Gravity Pipeline Projects. She provided a handout with a dashboard snapshot of the projects similar to the January meeting, with an added overview page. She intends to provide this to Commissioners at each meeting as well as uploaded to the website. She anticipates adding the Pump Station Projects to the report for the April version. Ms. Herrera thanked the individuals involved in preparing this incredibly detailed report and added if the Commissioners want to see anything else, please let her know.

ITEM 6

MATTERS OF COMMISSION MEMBER'S INTEREST

Commissioner Lieberman informed Mr. Child that he will be late to the Potable Reuse Workshop on March 9th due to a change in his schedule. He intends to be there by 1:00 p.m.

Commissioner Seybert requested a short report out at the April 12th Commission Meeting about the workshop, including some highlights and takeaways.

ITEM 7

CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR

Motion/Second:Mr. Grassilli / Mr. Otte

The Motion carried by Unanimous Roll Call Vote.

ITEM 8A

CONSIDERATION OF RESOLUTION APPROVING CONSTRUCTION CONTRACT DOCUMENTS FOR THE NEW 12KV SWITCHGEAR PROJECT (CIP #9807)

The design for the New 12kV Switchgear will allow SVCW to backfeed power into the PG&E grid and will be able to fully utilize the cogeneration system as well as take advantage of the energy reductions SVCW has incorporated. The project had its bid opening on March 1st and three bids were received. The lowest bidder was JF Shea/Parsons, the same Design-Build team that's working on the Front of Plant Project. Ms. Herrera added this is one reason their bid came in lower as they save a large amount of overhead and mobilization costs being on site already. Ms. Herrera concluded by recommending JF Shea/Parsons Joint Venture be awarded the contract.

Motion/Second:Mr. Otte / Mr. Lieberman

Move adoption of RESOLUTION ACCEPTING CONTRACT DOCUMENTS AND ACCEPTING BID OF LOWEST RESPONSIBLE BIDDER FOR THE NEW 12KV SWITCHGEAR PROJECT (CIP #9807); REJECTING ALL OTHER BIDS, AUTHORIZING

EXECUTION OF AGREEMENT FOR SAID WORK, DIRECTING RETURN OF SECURITY DEPOSITS THEREFORE, AND AUTHORIZE MANAGER TO APPROVE CHANGE ORDERS UP TO TEN PERCENT OF THE CONTRACT VALUE FOR SAID PROJECT (\$7,527,000) – JF SHEA/PARSONS JOINT VENTURE

The Resolution carried by Unanimous Roll Call Vote.

ITEM 8B

CONSIDERATION OF MOTION TO RECEIVE AND ACCEPT PRESENTATION OF SILICON VALLEY CLEAN WATER LONG RANGE FINANCIAL PLAN – 2018 UPDATE

Mr. Anderson highlighted the changes from prior years, with three major changes. Firstly, the Capital Improvement Program (CIP) updates have been incorporated, with the last update done in October of 2017. The update added Twenty-Million Dollars to the long-range capital expenditures, equaling 2.5%. Much of that was inflation, along with project additions and subtraction. The second issue is timing of construction and with the design-build delivery method, it accelerates the pace at which construction is coming. This has impacted the pace of expenditures and has been incorporated into the numbers. Last is the source of funds and where the money will come from to pay for these projects. Last year, a hybrid approach was used to finance the projects. There was optimism for receiving government loans, which were proven to be unavailable. SVCW has pursued 2018 revenue bonds in lieu of the previously anticipated SRF and WIFIA loans, but will continue to pursue government backed financing in the future when it could save money for our ratepayers.

Mr. Anderson displayed a graph comparing SVCW's CIP in 2015 to 2017. In 2015, it was \$813 Million Dollars and in 2017, it was \$834 Million Dollars. This is due to increases in inflation and modifications to upcoming projects, with the small net impact of 2.5%.

Timing is the biggest issue of all. Mr. Anderson displayed a slide indicating a significant increase of construction expenditures shifting towards the years 2020 and 2021. Currently, SVCW is fully funded through June 2019 because of the recent, very successful bond issuance.

Mr. Anderson highlighted the change in Weighted Average Cost of Capital percentage, from 3.65% in 2017 and 3.64% in 2018. Mr. Anderson proceeded to say he believes SVCW can hit the same costs of capital even with the lack of available government backed funding. Mr. Anderson said SVCW is recognized for its good credit ratings and that is in large part due to its member agencies funding the process as needed. Mr. Anderson recognizes the need to look at more variable rate bonds, which are still a traditional method of borrowing. It is taking advantage of more attractive variable short-term rates with some potential risk in the longer term rates.

Mr. Anderson displayed a slide highlighting maximum debt service with a line representing where the Agency thought it would be in total debt service payments, which peaks around \$44 Million to \$45 Million Dollars in Fiscal Year 2026-2027. The goal is to stay close to this number because that's what user rates are dependent on. The challenge will be in the interim years where SVCW knows its expenses will somewhat exceed what was anticipated

a year ago. Member agency finance teams are in discussion regarding rates in order to stay ahead of this.

In terms of debt planning, Mr. Anderson used a debt chart to show potential impacts of higher interest rates. If interest rates increase by 50 basis points, that would add \$2 Million Dollars a year and cost a net present value of about \$29 to \$30 Million Dollars. SVCW staff will remain sensitive to whether or not SVCW can get governmental loans or if interest rates rise, the Agency has to plan accordingly. A couple takeaways from the last bond issuance is that they recognize SVCW has a strong credit rating, with each member agency doing the heavy lifting with raising rates. One concern expressed is recognizing how much more SVCW may have to borrow, with questions such as what if the CIP grows further? This ties in with the Member Agencies ability and commitment to set rates? Mr. Anderson showed evidence that each consecutive year has seen a steady increase in rates to support the work. All of these factors are rolled into the Long Range Financial Plan and show what will be spent over the next ten years. Mr. Anderson will ensure this report gets out to the member agencies staff.

Commissioner Lieberman said over time, we've heard bits and pieces about how other sewage treatment plants are doing with their CIP's and that we are not alone in what we are doing. Are we still on track in comparison to other treatment plants and doing well relatively? He is unsure if other treatment plants have experienced a truly unexpected budget problem.

Mr. Child said that the City of San Mateo, Sunnyvale, San Jose and San Francisco all have large CIP's, with the City of San Mateo being comparable to us. They are behind SVCW schedule wise, but have comparable anticipated expenses. SVCW has a system in place and from a cost standpoint, Mr. Child believes SVCW is implementing an almost \$1 Billion Dollar program for way less than the management costs others are spending to hire consulting firms to manage their CIP. He has heard the above agencies are spending somewhere between \$3 Million and \$10 Million dollars per year for management of their CIP. The City of San Mateo is spending over \$8 Million Dollars a year to pay for consultants to manage their CIP. Mr. Child did an evaluation of SVCW's CIP which is running about \$2 Million to \$2.5 Million Dollars a year and he would challenge anyone to run this type of program efficiency like Ms. Herrera and the SVCW Engineering Department. Overall, he feels SVCW is doing very well.

Commissioner Lieberman noted that success like this comes from having a strong finance, engineering and management team in place, it does not simply materialize out of luck.

Commissioner Seybert said it appears the accelerated timeline has assisted with construction costs and the cost of money. There was concern a year and a half ago about delays and while not requesting actual numbers, but anecdotally, will any time be made up and costs be saved by this acceleration?

Ms. Herrera said she has the costs associated with delays for one month and one year written down on her whiteboard as a constant reminder and SVCW is working to lessen the impacts of the earlier delay.

Commissioner Seybert requested that staff keep tabs on the date of June 2019 for the next bond issuance and keep the Commission apprised if the Agency will still have to go out for more funds at that time. In terms of rates, yes, they may need to go up to cover the future years repayment costs, but hopefully we will be able to adjust them in such a way that will look long-term, because ultimately, they will go back down according to the graphs displayed.

Commissioner Seybert thanked SVCW for its efficiency and added that people tend to focus on what is spent as opposed to what is saved. He emphasized the importance of explaining this to the public and would appreciate an increased amount of public relations showcasing the projects and partnerships going on that are resulting in huge amounts of savings. It's important to promote SVCW and will help the public understand where and why the money is being spent.

Commissioner Otte asked if the impact of steel costs will be considered in the ultimate cost of the projects. Ms. Herrera said the contractor is limited in their ability to absorb the cost. Mr. Child added that we are still in preliminary stages and it is likely SVCW will bear the brunt of rising materials cost as we have not yet established our Stage 2 Guaranteed Maximum Price.

Move approval of RECEIPT AND ACCEPTANCE OF SILICON VALLEY CLEAN WATER CAPITAL IMPROVEMENT PROGRAM (LONG RANGE FINANCIAL PLAN) 2018 UPDATE

Motion/Second: Mr. Lieberman / Mr. Otte

The Motion carried by Unanimous Roll Call Vote.

ITEM 8C

CONSIDERATION OF RESOLUTION AUTHORIZING SVCW MANAGER TO NEGOTIATE AND SIGN A LETTER OF INTENT FOR SHARED SERVICES AGREEMENT – CITY OF SAN MATEO

Mr. Child began by providing background information on the City of San Mateo. He explained that the city has struggled for years with operating their wastewater treatment plant. The biggest challenge has been from a management standpoint, but more from the ability to pay wastewater people enough to attractively attain and maintain good employees. Mr. Child said the Wastewater Industry is a fairly high paid industry and there becomes a problem for a city because the city has other similar positions in their organization and they cannot afford to pay all the similar positions the wages needed to keep wastewater personnel. It also can be an issue when the wastewater wages start pushing up against police and fire. The snowball effect throughout the city is not sustainable. The City has told their wastewater staff they cannot match industry wages due to this situation and problems develop to where there's a revolving door for wastewater employees.

Mr. Child said about six weeks ago the San Mateo City Council met and determined that they were going to investigate contract operations for their wastewater treatment facilities. In discussing this among our staff, and in talking to the city staff, there was interest in the

possibility of SVCW contracting with the city to operate and maintain their wastewater treatment plant and one main pump station. A large factor in this consideration is the Council's concern of what happens to their current employees that are enrolled in CalPERS.

Mr. Child asked the City Manager if this is being driven by financial reasons because SVCW is not going to be the cheaper option. The City Manager stated the move is not a financially driven decision, but rather they are trying to do the right thing.

Mr. Child sees three reasons this could be beneficial. First, it's creating a situation with more resources for both facilities and if something is needed, there is a deeper pool of people for expertise once we get them up and running. The second is overhead costs that can be spread across a larger base of system users. The fixed costs spread out across two groups would lower the rates for everybody. The third benefit, and as Commissioners are aware, SVCW works with a consortium of agencies working on getting to potable reuse. The City of San Mateo was not involved in this until about six months ago when they came to the consortium and asked to join in the effort. Mr. Child said that today SVCW is looking at the potential to put both its and the City of San Mateo's treated effluent into the same pipe and, after further treatment, have it be suitable for potable consumption. If SVCW is running both facilities, it would make it easier to coordinate that effort. Mr. Child said staff sees some real benefits in the long run now, though there are also disadvantages. Firstly, staff is incredibly busy already. Taking on a new challenge is going to be difficult and there would be reliance on consultants for assistance. There will be cost associated with evaluating the ability for SVCW to perform this work. Mr. Child stated that this effort should not cost SVCW ratepayers anything. The scope would be to run their existing facilities, however, the city is building a brand new very high-tech membrane bioreactor plant which is expensive to build and very expensive to operate. Long term, SVCW would also startup and operate the new facility. Many people in the wastewater industry are curious why they're building this plant but that's was their decision and it will likely be a state of the art facility.

The biggest concern at this point is that the city will need to invest in the current facility to keep it functional while the new facility is being designed and built. It is critical that the city commit to stepping up and funding the needed work to keep the old plant in good shape. This is difficult for any agency since the money spent on the old plant will have a short life, but it is the reality of deferred maintenance and investment in the old facilities. This cost on top of the need to pay their staff more in order to retain qualified personnel is the reason Mr. Child had asked city staff if their decision was driven by financial reasons. It will be critical for SVCW to have guarantees that the city will spend the needed funds to keep the old plant operational in the interim. Failure to get those guarantees would be a fatal flaw to moving forward.

Mr. Child said what is being asked of the Commission today is the authority to sign a Letter of Intent with the City of San Mateo to preform due diligence to see if this idea is feasible and truly makes sense. Mr. Child intends to come back to the Commission with a full report of whether or not this is realistic.

Commissioner Seybert wanted to make it clear that this is solely authorizing staff to study the feasibility and in no way is approving anything but that.

Commissioner Grassilli appreciates what the City of San Mateo is doing and supports regionalization. He also expressed concern that SVCW is already incredibly busy with its \$800 Million Dollar CIP and taking on San Mateo's plant would spread staff too thin. He added when things begin to get separated with the San Mateo CIP, things could get very messy. Commissioner Grassilli added that the plant is a decent size and if SVCW wasn't undergoing such a large CIP, it may be a better idea.

Commissioner Lieberman concurred with Commissioner Grassilli's concerns and added he would only vote for this if staff's time spent doing the due diligence was reimbursed by the City of San Mateo. It cannot cost ratepayers anything for staff to take away time from SVCW. Commissioner Lieberman voiced apprehension about being taken advantage of and if the City of San Mateo is not willing to fund the time staff is taking to investigate whether or not this is the best option, then don't do it.

Commissioner Otte shared the same opinion as Commissioner Grassilli and Commissioner Lieberman adding, that in his view, we cannot allow this to impact the timeline for our own CIP projects.

Commissioner Seybert commented that after a recent budget session in Redwood City, the next several years are scary at best in terms of municipal governments. Redwood City is going to continue looking at regional services similar to what the City of San Carlos and Redwood City have with the fire department. Commissioner Seybert added that he doesn't believe privatization is the way to go and just because the Agency is unable to make money, we can still save ratepayers costs whenever possible. The reality is, the CIP won't always be going on and the Commission should look beyond it and what is best for the future.

Commissioner Seybert requested the proposed Resolution be re-drafted to include the clause that the process of studying the feasibility needs to be paid for by the City of San Mateo. The modified Resolution will be brought back at the following meeting for signing.

Move adoption of RESOLUTION AUTHORIZING SVCW MANAGER TO NEGOTIATE AND EXECUTE A LETTER OF INTENT RELATED TO THE LONG-TERM OPERATION OF THE WASTEWATER TREATMENT FACILITIES WITH THE REQUIREMENT THAT SVCW BE REIMBURSED FOR ALL COST ASSOICATED WITH THE DUE DILLIGENCE EFFORT – CITY OF SAN MATEO

Motion/Second:Mr. Lieberman / Mr. Otte

The Resolution carried by Unanimous Roll Call Vote.

ITEM 8D

FY 2017-18 BUDGET WORKSHOP EVALUATION – INFORMATIONAL ONLY – NO ACTION TO BE TAKEN. COMMISSION WILL PROVIDE DIRECTION TO STAFF AS NEEDED

Mr. Anderson said SVCW remained within the boundaries of the Long-Range Financial Plan. That goal is to not increase net operating costs over 4% a year as an Agency. This proposed budget is within that number at 3.96%. There were trimmings done but Mr.

Anderson believes it is a realistic and attainable number. Highlights include revenue funded capital such as technology needs, equipment needs, pump and valve repair and replacements. SVCW's Reserve Policy, which requires member agencies to contribute \$1 Million dollars annually for the CIP Reserve Fund is included in the proposed budget. That fund is growing with approximately \$17 Million Dollars in it today. The last significant change is the debt service payments have an increase in payments versus the current FY budget.

Normal merit and step increases are in place to address inflationary measures. Utilities have a \$93 Thousand Dollar reduction and is a direct result of the cogeneration system performing better than originally expected. There is an increase in the chemical budget due to a new process coming on line that requires additional polymer. One highlight to note is that due to the influent screening project completed over a year ago, we are seeing significant savings with outside services needed for cleaning tanks and "de-ragging" of plant equipment. Overall, increases are moderate and Mr. Anderson believes it is a well-rounded budget.

Flow and loading metrics have seen growth in San Carlos and Redwood City. The loading metrics are interesting with an increase in biochemical oxygen demand in West Bay which may be due to the significant increase in new high-tech buildings using waterless urinals and the high per capita loading of these facilities during daytime hours. While there is a 3.96% increase overall, the change can vary within each member agency's particular flow and loading numbers.

Mr. Anderson touched on chemical costs, which Mr. Child added these costs used to be much higher a few years ago. Through the Chair, Mr. Hamamoto, SVCW Chief Operating Officer stated that SVCW has decreased spending on chemicals significantly due our membership in the Bay Area Chemical Consortium. He noted that chemicals go out for one bid by agencies all over the Bay Area and everyone shares in the savings.

Commissioner Seybert asked Mr. Child how SVCW is doing in terms of how other plants in the area are doing. Mr. Child replied that it is difficult to determine since it really depends on what each plant has going on in terms of regulatory requirements and projects or programs. Commissioner Seybert asked that Mr. Child check around to do some benchmarking to make sure SVCW is staying competitive.

ITEM 9
CLOSED SESSION

Closed Session was called to order at 9:10 a.m.

A. CONFERENCE WITH REAL PROPERTY NEGOTIATORS

Pursuant to Government Code Section 54956.8

Property Description: 930 Governor's Bay, Redwood City, CA (APN: 095-380-210)

SVCW Negotiators: Lillian Jewell, Kevin Thorne (Hamner, Jewell & Associates);

SVCW Manager, Daniel T. Child

Negotiating Parties: Young/Leung

Under Negotiation: Price and terms

B. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

(Government Code §54956.9(d)(4))

Number of Potential Cases: 1

C. PUBLIC EMPLOYEE PERFORMANCE EVALUATION (Government Code §54957)

Title: Manager

D. LABOR NEGOTIATIONS (Govt. Code Section 54957.6(a))

AGENCY NEGOTIATORS: Daniel T. Child, SVCW Manager
Matt Anderson, Chief Financial Officer/Admin.

Manager

Jennifer Flick, SVCW Human Resources Director
Monte Hamamoto, SVCE Chief Operating Officer
Darrell Murray, IEDA

EMPLOYEE ORGANIZATION: IUOE LOCAL 39

ITEM 10

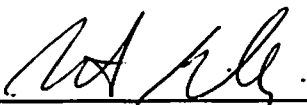
RECONVENE IN OPEN SESSION

Open Session reconvened at 9:28 a.m. Legal Counsel reported that discussion was held on the above items, instruction was given to Staff and Counsel by the Commission and no action was taken.

ITEM 11

ADJOURN

There being no further business, the meeting adjourned at 9:29 a.m.



Robert Grassilli, Secretary

By: Daniel T. Child, Manager